

February 14, 2022

By electronic submission

Chief Counsel's Office  
Attention: Comment Processing  
Office of the Comptroller of the Currency  
400 7th St. SW, Suite 3E-218  
Washington, DC 20219

**Re: Docket ID OCC-2021-0023**

Ladies and Gentlemen:

The International Swaps and Derivatives Association, Inc. and Securities Industry and Financial Markets Association (collectively, the “**Associations**”)<sup>1</sup> appreciate the opportunity to provide input on the Office of the Comptroller of the Currency’s (the “**OCC**”) request for feedback on the Principles for Climate-Related Financial Risk Management for Large Banks (“**Principles**”) released on December 16, 2021.<sup>2</sup> The Associations support the OCC’s goal to enhance the safe and sound management of banks’ exposures to climate-related financial risks. Given the intensifying pace of climate change, it is important to have a continuous dialogue with banking regulators to develop and determine the best approach to the treatment of climate-related financial risks.

We welcome the OCC’s principles-based approach to addressing risk management practices related to climate risk. We support the OCC’s efforts to establish regulatory principles and guidance surrounding new and emerging climate-related financial risks that align with the existing risk management regulatory framework. We believe that climate-related financial risks are drivers of existing risks. Accordingly, banks are at a developmental stage in embedding these risks into their existing risk management frameworks.

Currently, our member banks’ risk management practices, in the context of climate-related financial risk, have centered around the identification and evaluation of potential climate-related financial risks under different scenarios, specifically focusing on assessing potential materiality for different risks over different time horizons.<sup>3</sup> These efforts have helped identify some inadequacies and challenges, including data limitations and complexities arising from a variety of different scenarios and time horizons.

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<sup>1</sup> Please see Appendix for information regarding each Association.

<sup>2</sup> <https://www.occ.gov/news-issuances/bulletins/2021/bulletin-2021-62.html>

<sup>3</sup> To-date, banks have employed various time horizons in determining climate-related risk.

However, given the various challenges our members face when conducting scenario analysis, as explained in more detail below, we believe it is currently premature to incorporate climate-related financial risks into capital and liquidity adequacy assessment.

Our comments below focus on four (4) key areas that are particularly important to our members as they are an integral part of an effective risk-management framework. These include:

- **Data:** The availability of relevant, accurate and timely data is the key impediment in quantifying climate-related financial risks into banks' exposures.
- **Scenario analysis:** Institutions should have flexibility to create their own model designs with the data available based on principles-based regulatory guidance.
- **Responsibility of the board:** An effective risk-management framework should clearly distinguish and define the role and responsibility of the board relative to senior management.
- **Regulatory coordination:** As climate-related financial risks are global in nature, regulators should use their best efforts to coordinate on a regional and international basis when establishing principles or guidance that address climate risk.

### Data

The key challenge that banks face in incorporating climate-related financial risk into their respective risk management frameworks is the fact that existing data and tools to measure and quantify climate-related financial risk—and in particular, longer-term transition and physical risks—are only just emerging. Such data will need to undergo substantial exploration, refinement, and adaptation over time. Although data capabilities are improving, significant gaps in data sourcing, capture, standardization, and aggregation substantially affect the accuracy of projections and risk assessment. For example, there is a growing disparity between the increasing availability of transition risk data as compared to less available physical risk data. Consequently, banks' ability to understand and analyze physical risks is still evolving.

In this regard, we agree with the OCC's view reflected in the Principles that sound risk management is significantly dependent on the availability of relevant, accurate, and timely data. We also appreciate that the Principles acknowledge that the development of bank risk management frameworks to embed climate-related financial risks is iterative and will continue to evolve alongside wider developments, such as the availability of better quality, and more specific data.

Accordingly, any additional guidance published subsequent to these Principles should take a flexible approach, encouraging banks to individually consider, with the data

presently available, how climate-related financial risks impact their particular business and respective risk management frameworks.

### **Scenario Analysis**

We agree with the OCC that climate-related scenario analysis is an important tool that can be used to explore the potential impacts of climate-related financial risks on banks' portfolios and the overall business model. We recognize that such an exercise could enhance efforts to understand potential impacts, limitations, and improve our understanding of what needs to or can be done in the context of climate-related financial risk.

We are supportive of the OCC's view that firms should develop and implement climate-related scenario analysis frameworks in a manner commensurate to the bank's size, complexity, business activity, and risk profile. To-date, our members are actively engaged in developing their scenario analysis capabilities and running exercises across different parts of their portfolios.

At present, banks find it difficult to capture the specific impact of a climate-related event on the trading book given the limited availability of useable data (e.g., discount curves or price curves that capture climate risk). We support further development of climate scenarios to reach a consensus on available scientific and economic forecasts and a range of scenarios, such that individual banks can then tailor their approach to reflect their bank specific business models and risk profiles. For example, the Network for Greening the Financial System, Representative Concentration Pathways, and International Energy Agency's scenarios can be used to meet regulatory and risk management needs.

Also, publicly available climate scenarios do not provide banks with the appropriate sectoral and regional granularity to directly translate scenario output into readily consumable inputs for internal risk modeling. For banks, the value of climate scenario analysis can only be fully realized when the science-based or macroeconomic output is expanded into more granular financial impacts that can be applied across a diverse set of client industries and sub-sectors. Additionally, there is still a limited understanding of the climate economic models that drive these scenarios, which makes it more challenging for banks and vendors alike to expand scenario output while staying within the bounds of the model.

Given these challenges, scenario analysis should be considered an exploratory exercise, at this point in time, that enables firms to identify key areas of the business model that could be impacted by climate risk (both transition and physical) events. Conducting such exercises should also inform the firm's modelling strategies as the industry gradually develops more sophisticated capabilities. Indeed, many of our members are participating in industry-wide initiatives developing scenario analysis frameworks and methodologies

to assess climate-related impact. In this regard, any guidance from the OCC should be principle-based and should allow institutions to have flexibility to create their own model designs with the information at-hand.

### **Responsibility of the Board**

We are concerned that, as drafted, the Principles sometimes inappropriately equate the role of the board to that of the senior management, and thus, improperly assign responsibilities to both the board and senior management interchangeably. For example, the Principles recommend that the board “incorporate climate-related risks into [banks’] internal control frameworks” and “monitor how climate-related financial risks affect the bank’s exposure to risk related to changing prices.” These types of responsibilities run counter to the board’s role as an oversight body that oversees and challenges the executive management team, holding the executive to account. In this regard, we recommend that references to “monitoring” should include only management and not the board. Such responsibilities are better suited for the senior management and key staff that have access to the day-to-day information and can create and amend policies within the bank based on the available information. Blurring the lines between boards and executives could defy the purpose of strong internal governance.

In addition, the Principles place a significant amount of responsibility on the board with respect to strategic direction as it relates to climate-related financial risk and fail to recognize banks’ various internal management structures. For example, the board is expected to determine the bank’s “risk appetite” in the context of climate-related financial risk, whilst this is typically the responsibility of senior management. In general, banks may assign these responsibilities in different ways. In certain cases, the board may play a more hands-on role; while in other cases, the senior management designs and crafts the banks’ strategic direction, with the board endorsing the plan and providing general oversight.

We provide a few other examples where we think this distinction could be better clarified:

- **Governance section**
  - A materiality concept should be included in this section, as it is elsewhere (e.g., “actively oversee the bank’s *material risk taking activities*”).
  - The general statement “sound governance includes . . .” would benefit from some delineation between board and management responsibilities.
- **Strategic planning section** – “Boards” should not be included in references to public statements as this is beyond the scope of what the board would actually be tasked with, in particular “any” public statement.

- **Credit risk section** – Suggest amending the last sentence to “The board and management should determine credit risk appetite and *relevant risk management metrics and* lending limits related to *climate risk* ~~these risks~~.” The Principles should also clarify that management “determines” and the board approves credit risk appetite.

Accordingly, the Principles would benefit from: (1) more flexibility in acknowledging various bank structures, (2) clear differentiation between the roles of the board and senior management, and (3) recognition that, in general, a board’s responsibilities with respect to the governance are distinct from the responsibilities of the bank’s senior management.

### **Regulatory Coordination**

Given a fast-evolving landscape, the effective global coordination of prudential and supervisory principles is critical. Our members are keen on global financial regulators developing common principles of how to address climate-related financial risks across the financial system.

Global regulatory coordination will support banks in embedding climate-related financial risks into their risk management frameworks, including across operating entities in different jurisdictions. Any final OCC document should address the need for harmonized supervisory principles, domestically and internationally.

In this regard, we would welcome additional, coordinated guidance from the regulatory community in the following areas:

- Consensus around scientific and economic forecasts and range of scenarios and further international coordination and collaboration on the development of climate-risk models and scenarios
- Solutions to overcome a lack of relevant granular data and development of robust climate-related financial risk model frameworks; and
- Collaboration between prudential and market regulators to mitigate any unintended negative impacts on capital markets, including transition finance market.

**Conclusion**

We appreciate the opportunity to submit our comments in response to the Principles for Climate-Related Financial Risk Management for Large Banks. We commend the OCC for its consideration of these important issues. We look forward to the issuance of further guidance relating to climate-related financial risks.

Our members are strongly committed to maintaining the safety and efficiency of the U.S. financial markets and recognize that banks have a big role to play in the management of climate-related financial risks. We hope that the OCC will consider our suggestions, as they reflect the extensive knowledge and experience of financial market professionals within our memberships.

Please feel free to contact Panayiotis Dionysopoulos (+44 (0)20 3808 9729), Bella Rozenberg (202-683-9334), or Carter McDowell (202-962-7327) should you have any questions or seek any further clarifications.

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Bella Rozenberg  
Senior Counsel and Head of Legal and Regulatory Practice Group  
ISDA

A handwritten signature in black ink that reads "Carter McDowell". The signature is cursive and somewhat stylized, with the first name "Carter" and last name "McDowell" clearly legible.

Carter McDowell  
Managing Director and Associate General Counsel  
SIFMA

## Appendix

### Overview of the Associations

Since 1985, the **International Swaps and Derivatives Association** has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 960 member institutions from 78 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: [www.isda.org](http://www.isda.org). Follow us on [Twitter](#), [LinkedIn](#), [Facebook](#) and [YouTube](#).

The **Securities Industry and Financial Markets Association** is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of its industry's nearly one million employees, SIFMA advocates on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. SIFMA serves as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance and efficient market operations and resiliency. SIFMA also provides a forum for industry policy and professional development.